



## **Fast Food Services**

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### **Summary**

Although moderate growth is expected for all franchise food service concepts in Germany, industry sources predict that the best prospects exist for those able to exploit market niches, ride current trends, and/or present new products and services (e.g., coffee, wraps and sandwich bars, soup and salad concepts). U.S. franchise fast food concepts are attractive to German entrepreneurs because of Americans' proven expertise and experience within the field.

### **Market Profile**

Germany is one of the few mature franchise markets in Europe, as local entrepreneurs have successfully developed and implemented their own sophisticated concepts. The fast food sector has been able to mirror this strength, its continuing growth can be attributed to ongoing trends toward convenience food and toward an internationalization of eating habits. Although there is no detailed data available for the German fast food franchise market, a view of the overall fast food market clearly reflects the prosperity of this industry segment.

In 2004, the fast food service sector grew by 4%, with about USD 15.9 billion spent on fast food (USD 8.4 billion of which benefited the leading chains), USD 6.7 billion on catering at work (a market share of 13%), and USD 2.6 billion on themed gastronomy (a market share of 5%). Fast food chains had an overall market share of 31% of the total food service sector, with most of the big companies expecting even higher revenues in 2005.

In 2004, the German franchise fast food market was dominated by players from Germany (50 franchise concepts, 957 outlets or 40%) and the United States (6 franchise concepts, 1268 outlets or 53%). The 63 franchise fast food concepts in Germany had contractual relationships with a total of 2,385 franchisees in 2004. The continuous growth in the number of outlets in Germany is attributed to the expansion of existing franchise systems and an increase in the absolute number of franchisors. In 2004, the 63 franchise fast food systems operated outlets among the following sub sectors: Bistro restaurants, coffee & sandwich/bagel/pastry bars, food stands, pizza and home delivery services, fast food restaurants, specialty restaurants, and catering at work services.

According to a market survey conducted by the German Chamber Association of Chambers of Commerce and Industry (DIHK), a strong shift within the food services segment towards fast food chains will be taking place over the next five years with the market structure resembling those in the UK and the United States. Single proprietors will be obliged to seek co-operations in order to survive the competitive pressure.

## Market Trends

In Germany the demand for healthy and 'light' food is increasing. Recent studies commissioned by the German government revealed that 10-20% of children and up to 49% of adults are obese, causing a move towards better health awareness. However, with time spent on preparing food decreasing, consumers are looking for a synthesis of 'fast,' 'healthy,' and 'light.' The Munich-based IBB Consulting Company estimates a boom within small fast-food-chains, especially Asian. This is mainly due to quick service, as well as offering light and healthy diet choices. A market survey conducted by the magazine "Food Service" identified fresh products and 'feel-good-food' as the trends for 2005. The following products range as the top 10: Salads, finger food, soups, pasta, poultry dishes, vegetarian dishes, fruit desserts, vegetables, seafood, and Italian dishes.

**Coffee Shops.** The coffee shop concept is still very popular in Germany. The number grew from 50 stores in 1991 to about 700 stores today. According to experts' estimates, they are operating in a market with a potential of 1,200 to 1,500 stores. However, only 30% of the revenues of the German shops result from 'coffee-to-go.' Therefore, stores need the capacity to seat their customers. Almost 60% of the shops are located in Germany's bigger cities such as Berlin, Cologne, Frankfurt, Hamburg, or Munich. And even though growth slightly slowed in 2004, there is still further growth potential for new shops – both outside and within these urban centers. The top 10 companies in the business represent 65% of the market. The top 5 are: Segafredo (88 outlets), Caffè Ritazza (75 outlets), Lavazza (54 outlets), Coffee Connection (42 outlets), and Starbucks (37 outlets).

**Catering at Work.** In 2004, USD 6.7 billion was spent on catering at work, an increase of 3%. However, only 50% of the 38.9 million employees in Germany have access to an in-house cafeteria, with 72% of these actually utilizing this service. Therefore, non-users and occasional users offer great potential for alternative forms of catering at work. '*E@t Catering at work*' and '*Rotkaeppchen's*' are two German franchise concepts that are currently serving this market niche by delivering food to the workplace.

**Best Sales Prospects.** Even though there are many well established franchises already operating in Germany, the market is certainly wide open for U.S. franchise concepts, particularly for those that are able to take advantage of existing market niches/trends and/or can present new products and services. The president of the German Franchise Association, estimates that franchising within the fast food sector will create about 100,000 jobs in Germany over the next five years. The segments that are working extremely well at the moment are event catering, 'eatertainment,' fast food focusing on fresh ingredients, and 'take out.' In 2004, Italian and ethnic fast food had a slight stagnation in sales, compared to the increasing popularity of Asian fast food in particular. Coffee bars are still very popular destinations and sales are expected to increase, although at a slightly lower level than the previous year. Functional food, which has added dietary supplements, could serve as a market niche in the future, since it had a sales volume of USD 1.24 billion in 2004 with an absolute market potential of USD 7.5 billion. Dairy products have a 65% share of the functional food sector in the EU. This niche, however, has not yet been recognized by the fast food sector.

## Competitive Situation

Sub-sectors	Concepts				Outlets				% Growth concepts			% Growth outlets		
	2002	2003	2004	Est. 2005	2002	2003	2004	Est. 2005	2003	2004	Est. 2005	2003	2004	Est. 2005
Bistros	4	4	4	4	49	53	59	61	0	0	0	8.2	11.3	3.4
Catering at Work	2	2	2	2	5	6	8	12	0	0	0	20.0	33.3	50.0
Coffee Stores	12	15	17	18	172	207	243	297	25.0	13.3	5.9	20.4	17.4	22.2
Fast Food R.	14	15	17	17	1176	1275	1432	1641	7.1	13.3	0	8.4	12.3	14.6
Food Stands	0	0	2	3	0	0	8	18	0	200.0	50.0	0	800.0	125.0
Pizza Delivery	12	12	12	13	452	468	485	513	0	0	8.3	3.5	3.6	5.8
Specialty R.	8	9	9	9	105	127	140	161	12.5	0	0	21.0	10.2	15.0
<b>TOTAL</b>	<b>52</b>	<b>57</b>	<b>63</b>	<b>66</b>	<b>1959</b>	<b>2136</b>	<b>2375</b>	<b>2703</b>	<b>9.6</b>	<b>10.5</b>	<b>4.8</b>	<b>9.5</b>	<b>11.1</b>	<b>14.3</b>

Source: Individual research based on 2004 data

The German franchise fast food market has seen a significant growth in the number of outlets over the past few years. While 52 concepts were operating 1,960 outlets in 2002, an estimated 66 concepts will be operating about 2,700 outlets in 2005. This equals an annual growth rate of more than 10%. However, some of the sub-sectors have performed better than others.

**Bistros.** The number of concepts has remained stable since 2002. While the amount of outlets increased by 8% in 2003 and by 11% in 2004, respectively, it is expected to grow by as little as 3% in 2005.

**Catering at Work.** This relatively new concept is becoming very popular. However, there are only two concepts in Germany that offer this service. Franchised outlets have more than doubled since 2002 even though one of the operators has decided to rely less on franchising.

**Coffee Stores.** This sector is the one with the most sustainable growth. It grew by 20% in 2003, by 17% in 2004 and is expected to grow by another 18% in 2005. Five franchise concepts were newly established between 2002 and 2004, and the number of outlets increased by 76 over the same period.

**Fast Food Restaurants.** The significant growth in outlets that has taken place over the past few years within this sub sector is primarily due to existing fast food chains and not to the addition of new concepts. Burger King, McDonald's, and Subway accounted for 225 of the 256 new restaurants that were opened up between 2002 and 2004. Growth for 2005 is anticipated to be around 15% and will probably remain high as Subway plans to open up its 1500th store in 2010. Eighty-three new Subway restaurants were launched in 2004. Five of the six American franchisors in Germany operate within this sector.

**Food Stands.** Franchised food stands are not too common in Germany. The relatively high amount of outlets is due to one operator (Orbie) that offers mini donuts at festivals, Christmas markets, trade fairs, etc. In 2004, this concept amounted to 190 food stands.

**Pizza Delivery.** This sector seems to have slowly reached its capacity. Only one concept has been added to the market since 2002 and 30 outlets have been opened up

between 2002 and 2004. This equals a growth of about 3.5% every year. A growth of 5% is predicted for 2005.

**Specialty Restaurants.** Only one concept was added to the market in 2003 (Poco Loco). However, 35 outlets have opened up between 2002 and 2004 and the launch of another 21 is expected until the end of the year. The major players in this sector offer ethnic food (Enchilada), German food (Schweinske), and healthy diet food (Bodycur).

**Competitive Factors.** American franchisors seeking to test their systems in Germany should be aware of differences in market structure and conditions. Well entrenched competition, name recognition challenges, pervasive labor regulations, high salary costs, and mandatory product testing are all elements of financial risk that must be evaluated by the prospective franchisee and franchisor alike and should be considered during the strategic planning stage. Many companies that have successfully entered the German market have used 'pilot projects,' which are franchisor-financed, and market testing ventures that introduce new concepts, ideas, services and products to the German consumer. Pilot projects also help to acquaint the franchisor with a market where consumer have considerably different habits than in the United States. To assure a competitive position in Germany, franchisors should offer quality services and products at competitive prices.

**Major Players.** In terms of outlets, major American franchisors dominate the German fast food sector (McDonald's, Subway, Burger King, Pizza Hut, KFC, Dunkin Donuts, and Haagen Dazs). In 2004, they operated more than 904 outlets of the overall 2,385 franchised fast food outlets in Germany.

McDonald's Germany conducts an independent business and marketing strategy compared to McDonald's America by adapting to new consumer demands, for example, through their introduction of the *Salads Plus* concept. A range of salads and low fat burgers have been launched and meals can now be accompanied by a side salad instead of fries, carbonated apple juice instead of sugary lemonades, and ecologically friendly milk is available. McDonald's has opened up another 29 restaurants in 2004 and has ended the business year as the unchallenged market leader. 904 franchise outlets were run by 270 franchisees. Altogether, McDonalds operated 1,262 stores in Germany.

Subway, which has always had a 'low fat fast food' marketing strategy, opened up 25 stores in Germany in the first quarter of 2004 and plans to establish another 1,400 by 2010. Sales almost doubled in 2004 with 90 outlets in business.

With a double-digit growth of 11.4% compared with 2003, Burger King achieved annual sales of USD 702 million in 2004. In 2004, Burger King had 122 franchisees in Germany, the opening of its 500th store is planned for 2005.

The following charts outline the major players in their respective areas of operation in the German franchise fast food market:

Sub-sector	Franchise System
<b>Restaurants: Specialty</b>	Bodycur (G)
	Enchilada (G)
	Gonzales (NL)
	Havana (G)
	Lizarran (E)
	Maredo (G)
	Papizzo (G)
	Schweinske (G)
	Casserole (G)
	Doenertier (G)
<b>Food Stands</b>	Hot Dog Factory (G)
	Orbie (G)
	Alex Gastro (UK)
<b>Bistros</b>	Beaulongerie (F)
	Die Oliverie (G)
	Gastro Kanne (G)

Sub-sector	Franchise System
<b>Restaurants: Fast Food</b>	Burger King (US)
	KFC (US)
	Kochloeffel (G)
	McDonald's (US)
	Mr.Clou (G)
	Pizza Hut (US)
	Subway (US)
	Wienerwald (A)
	Blizzzeria (G)
	Call a Pizza (G)
<b>Pizza &amp; Home Delivery Services</b>	Flying Pizza (G)
	Joey's Pizza (G)
	Pizza Mann (G)
	Pizza Max (G)
	Prima Pizza (G)
	Tele Pizza (G)

Sub-sector	Franchise System
<b>Coffee and Sandwich Bars</b>	Café Nescafe (SW)
	Coffeeshop Co. (G)
	Cup'n Cino (G)
	Haagen Dazs (US)
	Piccoli (G)
	Segafredo (I)
	Testa Rossa (A)
	Tchibo (G)
<b>Catering at Work</b>	<a href="#">Eat@Business</a>
	Catering (G)
	Rotkaeppchens Catering (G)

Country Key: A = Austria, F = France, G = Germany, I = Italy, NL = The Netherlands, S = Spain, SW = Switzerland, UK = United Kingdom, US = United States

Source: Individual research based on 2004 data

## Consumer Profile

Focusing on the consumer aspect, the bottom line is that a 'standard' end-user profile is hard to pinpoint in such a diversified industry. Generally, end-users needs and behavior patterns are reinforced by interrelated cultural, educational, financial and generational factors. Ecological considerations, as well as a much-heightened health-consciousness, are increasingly affecting consumer decisions. Collectively, growing household income pressures over the previous years support a trend towards moderately priced products and services, with quality still playing an important role.

Increased mobility in German society has led to a breakup of traditional mealtimes and eating habits. According to a study by the Institute for Socio-Ecological Research in Frankfurt, 12% of all Germans above 18 and 50% of those aged between 18 and 25 can be rated as so-called 'Fast Fooders.' They eat irregularly, cook infrequently, prefer fast food restaurants, and are mostly single.

As the German economy has stagnated for some time with almost five million unemployed, consumers are forced to make economic decisions. As a result, price strategies have developed as a decisive marketing tool. Discount concepts are not only booming but are also setting previously unimagined low-price benchmarks. Only what customers perceive as being outstanding products will continue to sell well at normal, or even high, prices. Consequently, McDonald's and Burger King have introduced a range of products that are sold at the price of one Euro (USD 1.18 as of date of this report).

## Market Access

The realization of the European while making it interesting for companies to establish a foothold in this market of 450 million consumers, forces companies to adjust their marketing strategies. Removal of existing barriers among member countries of the European Union (EU) has intensified competition. Consequently, it has become harder to find a profitable niche in the market. For many Eastern European markets, Germany can function as a springboard and/or as a headquarters to these new markets.

**Legal Requirements.** Germany, like most European countries, operates under the civil code system. The implementation of the European Unified Market has stimulated a harmonization of trade, tariffs, legal requirements, standards and procedures. In general, franchising agreements are subject to the laws governing commercial contracts. When operating in Germany companies are expected to honor the "European Code of Ethics for Franchising," defined by various trade associations and by recently implemented EU regulations. This code is an agreement applying to the relationship between franchisor and individual franchisee. Further information can be obtained from the Delegation of the EU in Washington ([www.eurunion.org](http://www.eurunion.org)).

Legislation specifically relating to franchising consists of several legal statutes and codes that apply, partly exclusively, to franchising and must be observed when establishing a franchise agreement for Germany. Clear criteria for determining the legal status of franchise agreements are provided. Once the conditions are met, the franchise agreement enjoys complete antitrust exemption throughout the EC. U.S. franchisors interested in obtaining detailed information on present legal requirements for franchise contracts should contact the German Franchise Association ([www.dfv-franchise.de](http://www.dfv-franchise.de)). A list of lawyers specializing in German franchise law can be obtained from this association as well.

Of great importance to U.S. franchisors is the "Deutsches Lebensmittelgesetz" (German Food Law) of Aug. 15, 1974, a federal law whose enforcement is the responsibility of the different federal states ("Laender"). It is a law that is supplemented by numerous individual regulations and is regarded as particularly strict, often being used as a legal model for corresponding EU-regulations. All imported foodstuffs have to meet the requirements of the act, with federal and state laboratories conducting obligatory analyses of the product. Further information is available from the German Chambers of Commerce in the United States (click on cross links at [www.amcham.de](http://www.amcham.de)). For further information on trade regulations and standards please see the Country Commercial Guide (CCG) for Germany, which can be accessed through <http://www.export.gov>.

## Market Entry

**Marketing Strategies/Business Practices.** American franchisors seeking to test their systems in Germany should be aware of differences in market structure and conditions. Well-entrenched competition, name recognition challenges, pervasive labor regulations, high salary costs, and mandatory product testing are all elements of financial risk that must be evaluated by the prospective franchisee and franchisor alike, and should be considered during the strategic planning stage. Allowances for these risk factors should be considered when pricing the master franchise agreement. Cooperating in pilot franchise ventures helps to ensure the profitability and success of introducing a franchise system. This is a much more successful route than just simply trying to "sell the map of Germany" for a franchise to any potential investor who will buy it. U.S. firms should also be willing to provide continuing support to their master/area franchisees in the form of advertising in a German franchising magazine or other appropriate advertising vehicles.

The following table is a sample of the expected amounts of investment, initial and ongoing franchise fees in Germany. The initial fee can be increased for extra costs (market research, legal/notary services, ads, etc.) related to the opening of an outlet. Additional investment costs (equipment, furniture, etc.) can vary tremendously.

### Capital Requirements

Franchise Systems	Initial Fee (USD/1000s)	Investment (USD/1000s)	Sales Royalty/Advertising
Nudelland	13	195-325	5%/1% of net sales
Mr.Chicken	20	325	5%/3% of net sales
Subway	13	104	8% of net sales/n/a
Kochloeffel	20	From 52	5%/3% of net sales
Pizza Max	13	91	5%/1% of net sales
Joey's Pizza	16	111-165	5.5%/2.5% of n. sales
Cup & Cino Coffee House	16	100-300	4%/1.5% of net sales
Testa Rossa Caffebar	20	130	\$455/3% of net sales
Block House	46	1560	6%/2% of net sales
Joe Penas	26	455	4% of net sales/N/A
E@t Business Catering	3	78	6% of net sales/none

Source: Individual research based on 2004 data

**Potential Franchisees.** For a market as large and decentralized as Germany, a U.S. franchisor should think not only in terms of master franchisees, but should also consider licensing more than one area franchisee. A directory of potential franchisees/investors, however, does not exist. Advertising in national newspapers or industry-specific magazines for potential investors is helpful. Another useful approach is to contact one of the German consulting firms specialized in franchising and registered with the German Franchise Association ([www.dfv-franchise.de](http://www.dfv-franchise.de)). Several websites also help matching franchisor and franchisee (see 'Media Links').

Another source of investors is the small- and medium-sized business community. While these smaller companies traditionally represent the backbone of the German economy, they are finding it increasingly difficult to compete with larger service and retail chains. Yet another potential source would be employees who received severance payments upon leaving their jobs. In times of high unemployment and with no experience in self-employment, franchising represents a relatively risk-free opportunity to build-up a new life. Prospective franchisees also typically visit appropriate German trade fair or approach the franchisor directly (see 'Upcoming Trade Shows'). However, as a result of the economic slowdown, potential investors are now more discerning than a few years ago and U.S. franchisors must offer interesting, new concepts targeted at niche markets to be successful.

The U.S. Commercial Service offers under the Gold Key Service the "Franchise Partner Search Service" (FPSS), a program tailored specifically to the needs of U.S. franchisors in locating suitable franchise partners in Germany. For further information please contact the author at the email address given at the end of this report, or your local U.S. Department of Commerce Export Assistance Center.

**Financing.** The German federal government and the individual states encourage commercial investments in Germany through subsidized loan programs, depreciation allowances, various types of investment grants and tax incentives. Although large banks have become more restrictive in the granting of funds as a result of the lingering recession, U.S. franchisors can profit from the knowledge that financial assistance is available to support prospective franchisees.

Considerable emphasis has been placed on stimulating the creation of small and medium-sized companies through the use of favorable long-term, reduced-interest loans. These loans, applied for through private credit institutions but subsidized by the German Bank for Reconstruction (Kreditanstalt fuer Wiederaufbau – KfW), represent the heritage of the European Recovery Plan, better known as the Marshall Plan. In addition to making low-interest loans available under certain conditions to domestic and foreign investors, the KfW provides free information and advisory services ([www.kfw.de](http://www.kfw.de)).

Meanwhile, numerous other German banks are beginning to recognize the benefits of supporting a franchise concept that has already been verified in practice. A prospective franchisee will be granted better credit conditions if supported by a well-established franchise concept. Another source for investment capital may be the federal association for German venture capital, which offers detailed information about its members via the association's website ([www.bvk-ev.de](http://www.bvk-ev.de)).

**Media Links.** Advertising in trade journals can be an effective means of entering the German market. There are magazines in Germany that report on the franchising industry in general ([www.geschaeftsidee.de](http://www.geschaeftsidee.de), [www.impulse.de](http://www.impulse.de), [www.franchise-erfolge.de](http://www.franchise-erfolge.de)), while others focus on food service related areas in particular ([www.snack-bistro.de](http://www.snack-bistro.de), [www.café-future.net](http://www.café-future.net), [www.gastronomie-mag.de](http://www.gastronomie-mag.de), [www.catering.de](http://www.catering.de)). Two franchise directories ([www.franchise-chancen.de](http://www.franchise-chancen.de), [www.franchisewirtschaft.de](http://www.franchisewirtschaft.de)) are available annually as well. Another opportunity to present a company's concept is to advertise on internet platforms that specialize in franchising ([www.franchise-net.de](http://www.franchise-net.de), [www.franchiseportal.de](http://www.franchiseportal.de), [www.franchise-world.de](http://www.franchise-world.de)), or, in specific food service sub-sectors ([www.gastronomie.de](http://www.gastronomie.de), [www.systemgastronomie-online.de](http://www.systemgastronomie-online.de)).

## Opportunities for Profile Building

The German Franchise Institute ([www.dfi-online.de](http://www.dfi-online.de)), sector-specific associations (cafe food verband), and industry-specific magazines (e.g. 'food service' [www.café-future.net](http://www.café-future.net)) frequently organize workshops and conferences around certain topics of interest. They present excellent networking opportunities for products and services exporters.

## Key Contacts

- Deutscher Franchise Verband (German Franchise Association), [www.dfv-franchise.de](http://www.dfv-franchise.de)
- Deutsches Franchise Institut (German Franchise Institute), [www.dfi-online.de](http://www.dfi-online.de)
- Bundesverband der Systemgastronomie (Federal Association of Catering Concepts), [www.markengastronomie.de](http://www.markengastronomie.de)
- Bundesverband der Schnellgastronomie und Imbissbetriebe (Federal Association of German Fast Food Restaurants), [www.snackbistro.de](http://www.snackbistro.de)
- Deutscher Hotel- und Gaststaettenverband (National Association of the Hotel and Catering Services), [www.dehoga.de](http://www.dehoga.de)

## Upcoming Trade Shows

A special franchise trade fair does not exist in Germany. Prospective franchisees visit sector-specific trade fairs, such as:

**Anuga 2005**, International Trade Fair for Food and Beverage, Hotel and Catering Equipment, and Shop Fittings, Oct. 8-10, 2005, Cologne, [www.anuga.de](http://www.anuga.de)

**INTERNORGA 2006**, International Fair for the Hotel, Restaurant, Catering, Baking, and Confectionary Trades, March 3-8, 2006, Hamburg, [www.internorga.de](http://www.internorga.de)

**Hogatec 2006**, International Trade Fair for Hotels, Gastronomy, Catering, Sept. 24-28, 2006, Dusseldorf, [www.hogatec.de](http://www.hogatec.de)



**For More Information**

The U.S. Commercial Service Germany can be contacted via e-mail at: [munich.office.box@mail.doc.gov](mailto:munich.office.box@mail.doc.gov), website: <http://www.buyusa.gov/germany/en/>.

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